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SUBJECT: SOUTH AFRICA'S TRADE PERFORMANCE IN 2006

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11. (U) Summary. South Africa's strong import demand for crude oil and capital equipment, along with comparatively moderate export growth, resulted in an 80 percent widening of the current-account deficit during 2006. Strong consumer demand, spurred by relatively low levels of debt servicing cost, contributed to a 32.5 percent increase in merchandise imports in 2006, while merchandise exports increased by 20.3 percent. The South African Government's (SAG) multi-billion-rand capital expansion program will ensure import growth continues, while exports will benefit from strong global demand for commodities. In 2007, exports are expected to benefit from a moderately weaker rand and strong global demand. Economists expect the current-account deficit to remain above 6.5 percent of GDP in 2007. China is slowly eating into Germany's position as the largest supplier of imports and the U.S. is threatening Japan's position as South Africa's largest export destination. End Summary.

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SOUTH AFRICAN IMPORTS  
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12. (U) According to data released by the South African Revenue Service (SARS), the value of merchandise imports, which had increased by 14.5 percent in 2005, increased by an additional 32.5 percent in 2006. The strong demand for oil and capital equipment and vibrant consumer demand contributed to the increase in 2006. Imports of mineral products increased by 67.7 percent, largely because of higher crude oil prices, while imports of vehicles and transport equipment swelled by 17.8 percent in 2006. Machinery imports, pushed by the upward trend in fixed capital formation, increased by 32.5 percent and accounted for 26.2 percent of total imports in 2006.

Value of South Africa's Major Imports

Imports	2005	2006	Percent Change	Percent of Total Imports
Machinery	\$13.1bn	\$17.3bn	32.5	26.2
Mineral Products	\$7.6bn	\$12.7bn	67.7	19.2
Vehicles	\$6.5bn	\$7.7bn	17.8	11.6
Chemical Products	\$1.6bn	\$2.1bn	20.3	8.2

13. (U) China continued to expand its share of South Africa's

import market at the expense of South Africa's other leading trading partners, including the U.S. China's increased share in the import market was mainly due to high volumes of low-cost merchandise imports, which are slowly eating into Germany's position as the largest supplier of South Africa's imports.

#### South African Import Sources

Country (Percent of Total Imports)	-----	
	2005	2006
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Germany	14.1	12.6
China	9.0	10.7
U.S.	7.7	7.6
Japan	6.8	6.5
Saudi Arabia	5.6	5.3
U.K.	5.5	5.0
Africa	4.9	6.7

Imports from Africa increased largely due to a doubling of oil imports from Nigeria and Angola.

#### ----- SOUTH AFRICAN IMPORTS FROM THE U.S. -----

¶4. (U) The value of total imports from the U.S. increased by 15.9 percent from \$3.652 billion to \$4.234 billion in 2006, according to the U.S. International Trade Commission (USITC).

South Africa imported mostly machinery and mechanical appliances, vehicles and aircraft, as well as medical instruments. Moreover, there was a significant increase in imports of live animal products (805.5 percent), dairy produce (550.0 percent), fertilizer (447.3 percent), cement (390.4 percent), and iron and steel (214.7 percent) in 2006.

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#### ----- SOUTH AFRICAN EXPORTS -----

¶5. (U) SARS reported that the value of South Africa's exports increased by 20.3 percent in 2006. Exports benefited from strong global demand and the surge in international commodity prices. The increase was most noted in the "precious metals" category, where exports increased by 33 percent in 2006. Precious minerals constituted 28 percent of the total export basket with platinum the largest export earner in this category, followed by gold, and diamonds. Base metal exports, which mainly consist of basic iron and steel exports, increased by 16.2 percent in 2006 and constituted 17 percent to the export basket. Higher gold prices served to offset a continuing decline in gold production, while the value of coal exports exceeded the value of diamond exports. Mining exports in total constituted 45 percent and manufacturing 51 percent of the total value of South African merchandise exports in 2006, respectively.

¶6. (U) Manufacturing exports benefited from the sustained buoyancy of the global economy and a weaker rand. Manufacturing exports in the form of machinery, vehicles, and chemical products increased by 35.6 percent, 17.4 percent, and 6.9 percent, respectively. The export value of the "mineral products" category (petroleum refineries/synthesizers) increased by 22.5 percent in 2006. Agricultural exports constituted 4 percent of total exports and showed a 7.9 percent decline in 2006. The poor export performance of the agricultural sector was mainly due to fewer maize exports as a result of a reduction in maize plantings during the 2005-2006 season.

#### Value of South Africa's Major Exports -----

Exports	2005	2006	Percent Change	Percent of Total Exports
Precious Metals	\$11.8bn	\$15.6bn	33.0	27.7
Mineral Products	\$6.8bn	\$8.3bn	22.6	14.7
Base Metals	\$8.3bn	\$9.6bn	16.2	17.0
Machinery	\$4.2bn	\$5.7bn	35.6	10.0
Vehicles	\$4.5bn	\$5.3bn	17.4	17.4
Chemicals	\$3.1bn	\$3.3bn	6.9	5.9
Agricultural Prod.	\$2.2bn	\$2.0bn	-7.9	3.6

¶7. (U) Japan and the U.S. remained South Africa's main export markets in 2006, receiving 10.7 and 10.5 percent of total exports, respectively. Exports to China increased by 64 percent, constituting 4.3 percent of total exports. The U.S. increased its share of total exports, threatening Japan's position as the largest export market.

#### South African Export Destinations

Country (Percent of Total Exports)	2005	2006
Japan	10.0	10.7
U.S.	9.5	10.5
U.K.	9.7	8.0
Germany	6.5	6.8
Netherlands	4.5	4.7
China	2.7	4.3
Africa	14.0	13.3

#### SOUTH AFRICAN EXPORTS TO THE U.S.

¶8. (U) The USITC reports that the total value of exports to the U.S. increased by 28.1 percent from 2005 to 2006, driven by an increase in the value of precious metals and stones, iron and steel, machinery, aluminum, and vehicle exports. The value of exported precious metals and stones increased by 40.6 percent for the period, followed by aluminum exports which increased by 24.7 percent and iron and steel by 41 percent. The value of vehicle exports increased by 64.6 percent from \$287.1 million in 2005 to \$472.5 million in

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¶2006. South African paper exports to the U.S. increased by more than 600 percent from \$1.3 million in 2005 to \$9.2 million in 2006.

#### SOUTH AFRICAN CURRENT ACCOUNT DEFICIT

¶9. (U) South Africa's strong import demand for crude oil and capital equipment, along with comparatively moderate export growth and increased in dividend payments to foreign shareholders, resulted in an 80 percent widening of the current-account deficit in 2006. The current-account deficit widened from R62.3 billion (\$8.9 billion) in 2005 to R112.4 billion (\$16 billion) in 2006. Relative to GDP, the deficit increased from 4.0 percent in 2005 to 6.5 percent in 2006.

#### OUTLOOK FOR 2007

¶10. (U) Exports are expected to benefit from continued strong global demand and moderately weaker rand, predicted to be on average at \$7.15/\$ in 2007. The SAG's multi-billion-rand capital expansion program, high crude oil prices, this year's drought, and a weaker rand will ensure that imports values will remain high. According to the USITC, South Africa's exports to the U.S. increased by 20.4 percent in the first half of 2007, increasing the likelihood that the U.S. will soon become South Africa's largest export

market. Given the trade outlook, economists expect the current-account deficit to remain above 6.5 percent of GDP in [2007](#).

Teitelbaum